



**Director of
Central
Intelligence**

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*Tuesday
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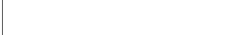
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EL SALVADOR: Amnesty Extended

The Constituent Assembly recently extended the amnesty law for armed insurgents until 15 August. [redacted]

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The US defense attache says the military's processing of armed insurgents and civilian supporters has been well handled so far. The government plans to improve publicity about the program by using an airborne megaphone system to reach guerrillas who are denied access to regular media. It will continue to drop leaflets over known guerrilla base camps. [redacted]

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The military has yet to establish a system to exploit the possible intelligence value of those seeking amnesty. It is not prepared to process large numbers of insurgents, if that should become necessary. [redacted]

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The US Embassy reports the extension does not apply to political prisoners. Since the amnesty went into effect on 15 May, about 70 percent of the country's political prisoners have been released. [redacted]

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Comment: Requests for amnesty may increase, following the recent military sweeps in many parts of the country. Several Army commanders apparently favor the extension for that reason. [redacted]

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CHAD-LIBYA: Publicizing Tripoli's Role

The government is using the lull in the fighting to draw attention to Libya's involvement in the conflict. [REDACTED]

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To support its case, the Habre government presented its first captured Libyan soldier to the press in N'Djamena over the weekend. The prisoner claimed that approximately 1,500 Libyan officers and men are fighting alongside the dissidents and that 3,000 Libyan-trained mercenaries from various African countries also are involved.

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Comment: The Libyan prisoner's claims probably are exaggerated and intended to buy favor with his captors. He apparently is a low-ranking radio operator who would not necessarily have access to details and numbers of troops. [REDACTED]

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Nevertheless, his capture is another sign of the presence of Libyans—even with small dissident units—and their participation in combat. Libya has approximately 1,000 men stationed in the Libyan-claimed Aozou Strip. An estimated 200 Libyans probably are directly associated with dissident operations further south. [REDACTED]

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The mercenaries mentioned by the prisoner probably include Chadians and others recruited throughout Africa and trained by Libya to provide an army for dissident leader Goukouni. Libyan arms, training, supplies, advisers, and military planning were crucial in the dissidents' early successes against Habre. [REDACTED]

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WEST GERMANY: Possible Vote on INF

The government appears confident it will win a reaffirmation of the NATO program if a vote is held in the Bundestag following debate on INF this November. [redacted]

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The opposition Social Democrats are demanding both a debate and vote in the Bundestag, to coincide with the anticipated conclusion of the next round of negotiations in Geneva. Christian Democratic and Free Democratic deputies tried to undercut the opposition last month with a resolution agreeing to a debate in mid-November, but avoiding a firm commitment to take a vote. The government insists the debate will take place on schedule, even if the negotiating round is extended.

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Comment: The governing coalition is likely to agree to a vote in order to counter opposition charges that deployments are being permitted without an assessment of the Geneva talks. With the Christian Democrats only five seats short of a majority, the coalition has a comfortable 30-seat majority in the Bundestag. [redacted]

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Although a handful of coalition deputies—mostly Free Democrats—may abstain or vote against deployment, the government almost certainly will prevail. There have been no signs of defections among Christian Democrats, but some cannot be ruled out if the US were to be seen as responsible for a failure of the talks at Geneva. [redacted]

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A vote may cause more problems for the Social Democrats than for Kohl. [redacted]

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Nonetheless, the debate is likely to cause problems in the other basing countries. Supporters of a similar parliamentary debate in Italy could be strengthened, and Belgium and the Netherlands will have even less incentive to decide on basing before the debate in the Bundestag. [redacted]

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VIETNAM: Crackdown on Private Sector

The Vietnamese Central Committee last month in its fourth plenum endorsed the crackdown on the private sector, which has been under way since early this year. Vietnamese officials have closed private firms or greatly increased their taxes and have restricted the amount of money and goods that can be received from overseas Vietnamese. At the same time, incentives are being strengthened to increase the productivity of peasants and of state factory workers.

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Comment: The Central Committee action indicates the high level of concern about the growth of the private sector, which now produces and distributes the majority of goods in the south and which is spreading to the cities in the north. Hanoi, on the other hand, fears that any crackdown may cause a dangerous drop in production, and is thus offering new incentives to the peasants. Vietnam has no food reserves, and a severe drop in agricultural production would force the leadership to back off from its socialization campaign.

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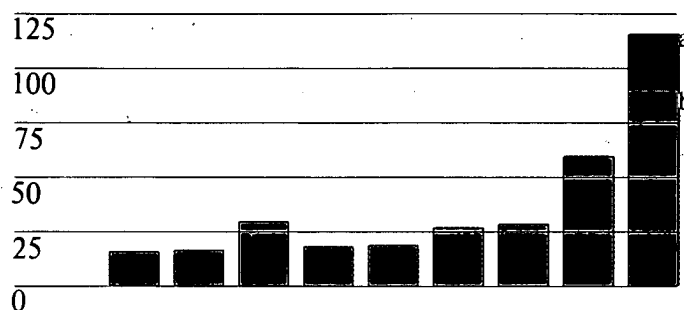
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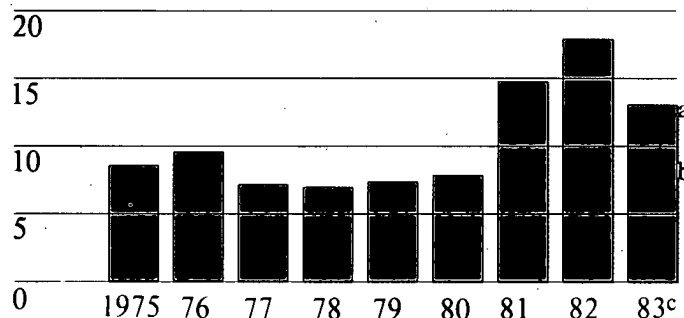
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Mexico: Economic Indicators

Consumer Price Inflation Percent



Public-Sector Deficit as a Share of GDP Percent



^a Assumes Mexican policy makers relax austerity by increasing imports and public spending.

^b Assumes Mexico City keeps imports and public spending depressed.

^c Projected.

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Special Analysis

MEXICO: High Costs of Austerity

President de la Madrid is strengthening the austerity program he introduced last December with tough new initiatives on wages, subsidies, and government administration. Although he appears willing to do what is necessary to stay in compliance with the IMF stabilization program, domestic opposition to the austerity measures is growing. The economy is likely to continue declining during the rest of the year.

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The IMF stabilization package is intended to give Mexico time to reschedule its \$81 billion foreign debt. The international financial community has been somewhat encouraged by the recent headway the Mexicans have made on their foreign accounts.

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Nevertheless, because of some continued capital flight, growing numbers of bankruptcies, and problems in reducing overdue debts, bankers remain skeptical about the government's ability and willingness to provide foreign exchange to pay private debt obligations. Defaults on private Mexican debt probably will cost US bankers \$3-4 billion over the next year.

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De la Madrid's efforts to bring domestic spending in line with resources have yielded some financial results, but they have disrupted the economy. Cuts in imports and public spending are substantially reducing economic activity.

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During the first half of this year consumer price inflation ran at an annual rate near triple digits, and wholesale prices rose even more rapidly. Bankruptcies and job losses are multiplying, and real wages and personal incomes are dropping sharply.

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The President has negotiated skillfully to secure the support of organized labor and the grudging cooperation of business and middle-income groups. Unions have been primarily concerned with maintaining employment for members. So far, most job losses have been suffered by less skilled, unorganized workers.

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Private businesses have been pleased with wage restraints and with the President's low-key, practical style. Nevertheless, they are concerned about the absence of an explicit role for private enterprise in de la Madrid's economic policy initiatives.

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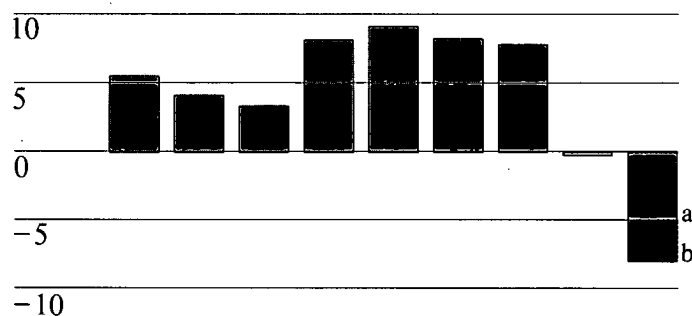
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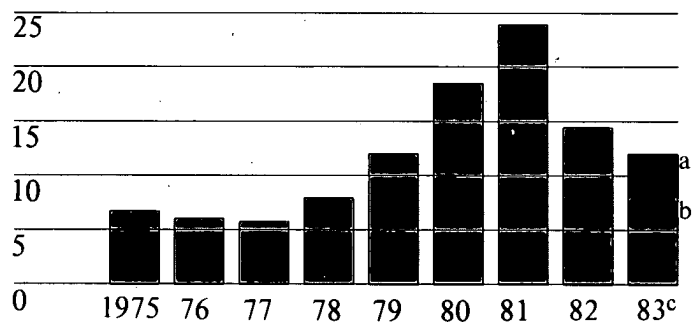
Mexico: Economic Indicators

Shaded portion of bar indicates range

Real GDP Growth
Percent



Merchandise Imports
Billion US \$



^a Assumes Mexican policy makers relax austerity by increasing imports and public spending.

^b Assumes Mexico City keeps imports and public spending depressed.

^c Projected.

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Maintaining a consensus on the austerity program is likely to be much harder for the rest of the year. Continuing to meet IMF targets means no rebound in private business activity, further deep government spending cuts, and a substantial reduction in the public-sector payroll. Trimming subsidies for food and transportation and the public work force will begin to affect politically powerful interest groups directly. [REDACTED]

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Growing Opposition to Austerity

Concern is growing in the cabinet about the high social and political costs of cutting the budget. Many economists and opposition politicians are arguing that the adjustments have gone far enough. [REDACTED]

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Small radical leftist parties with little economic or political influence have been the most vocal opponents of austerity. So far, however, they remain divided. [REDACTED]

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Mexico City may seek adjustments in IMF restrictions during the next few months. Requests for concessions by the IMF on the public-sector deficit, expansion of the money supply, and overseas borrowing are likely in order to hold the drop in employment and in consumption to acceptable limits. At a minimum, Mexico City probably will push for relaxation of IMF terms for the remaining two years of its three-year program. [REDACTED]

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Continuing Economic Decline

Even if de la Madrid eases austerity in the next few months, the steep economic decline is likely to persist throughout the year. If austerity measures remain in place, there probably will be an 8-percent fall in economic activity this year. If Mexico City relaxes them, as seems more likely, output probably will still drop by about 5 percent. [REDACTED]

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As a result of the great reduction in imports during the first half of this year, enough foreign financing is available now to allow Mexico to increase imports and stimulate the economy. Nevertheless, maintaining the austerity program for the rest of the year probably will put Mexico in a more favorable foreign exchange and inflationary position for regaining some economic momentum, perhaps by late 1984. [REDACTED]

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Strained Relations With the US

The prospects for prolonged austerity almost certainly will cause some unrest and will cloud Mexico's economic and political relations with the US for at least the next two years. Despite substantial improvements in bilateral economic relations since de la Madrid took office last winter, US financial losses will continue to be heavy. [REDACTED]

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Moreover, the Mexicans could expropriate properties owned by US firms or declare additional debt moratoriums. There also will be continued tension over illegal migration to the US, which will remain at record levels. On the other hand, the renewal of at least some economic momentum in Mexico next year would help prevent a severe deterioration in US-Mexican relations. [REDACTED]

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